



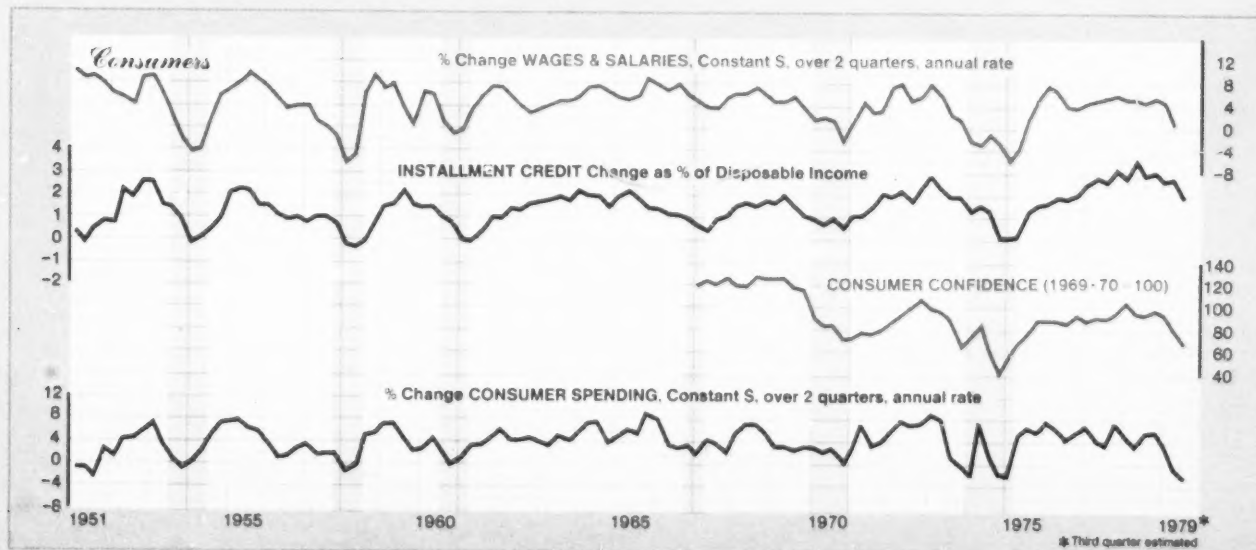
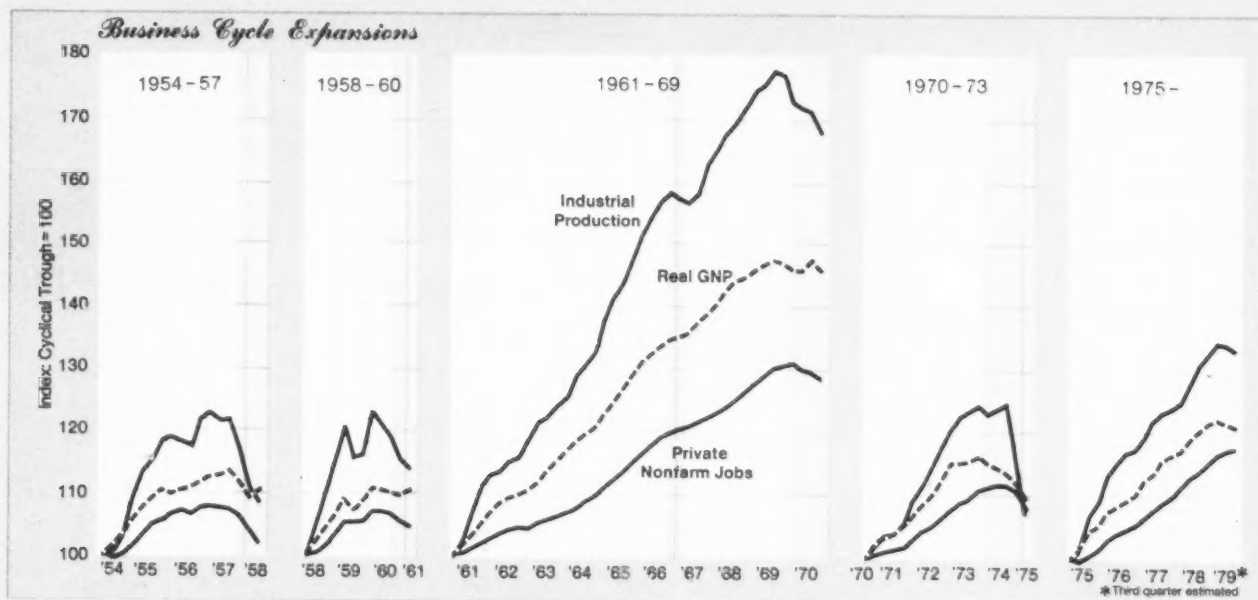
The Cyclical Setting

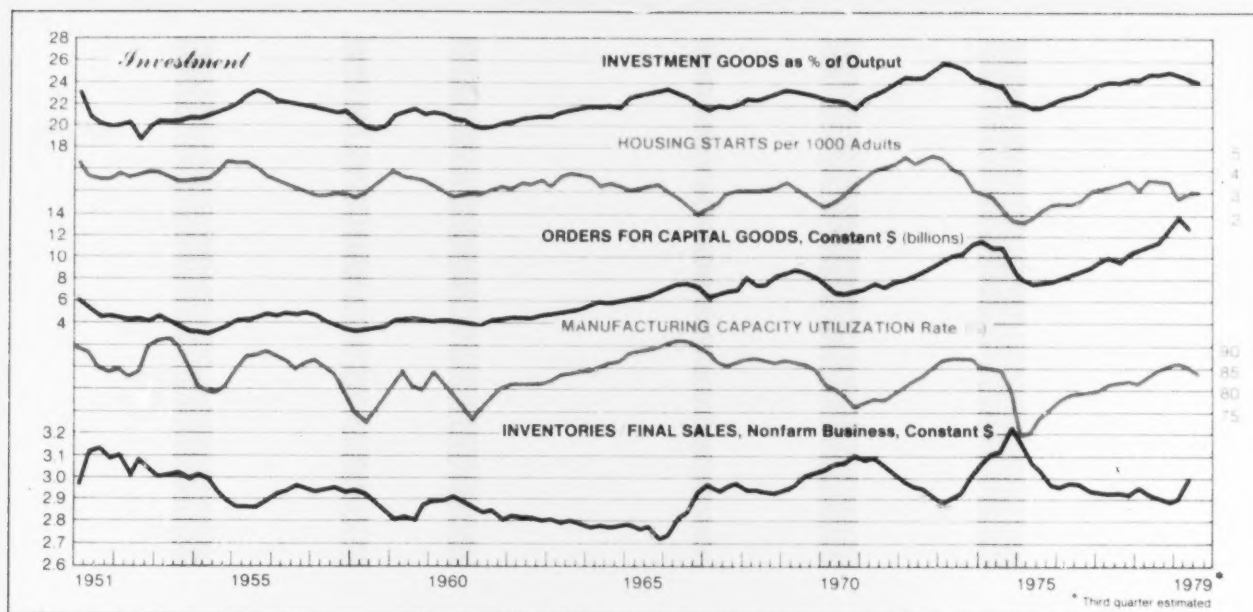
Economic Road Maps

No. 1864

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The recession phase of the business cycle is marked by widespread, cumulative cuts in production, sales, and jobs. Since World War II, six U.S. recessions have been dated by the National Bureau of Economic Research, the private organization that is the accepted arbiter of cyclical timing. There was also a setback in 1965-67, too mild to qualify for NBER designation but generally recognized as a mini-recession. The consensus is that another recession is starting this year, although there is disagreement over whether the true cyclical recession has yet begun. The timing is clouded by last spring's disruptions caused by factors such as gas shortages and truck strikes. The charts immediately below show the expansions leading to the last four NBER-designated recessions plus the 1975 expansion. The other charts plot selected economic variables that show some identifiable cyclical patterns.





Every economic cycle has some special characteristics of its own. But while history never repeats itself exactly, there are some fairly consistent patterns. The growth rates of real consumer income and spending generally show clear weakening before a cyclical slump. Consumer confidence falls as income growth slows, and debt usage eases late in an expansion after the typical credit boom.

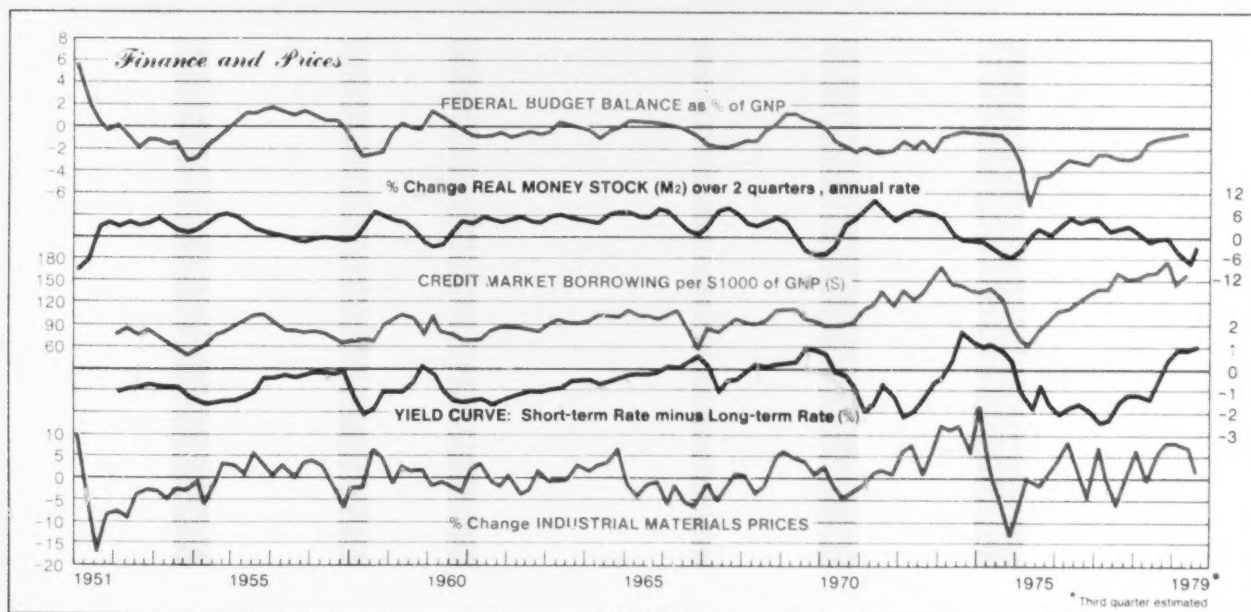
Investment goods become more important in national output as an economic expansion progresses. But this trend can't persist indefinitely because stocks become adequate while the associated debt becomes burdensome. Inventories are another common feature of the business

cycle. They usually get out of line late in the expansion when prices are rising rapidly and capacity is pressed.

Among financial indicators, frequent precursors of recession are a relatively shrinking federal deficit, a slowing rate of real money growth, and a rise of short-term interest rates above long-term rates. On the price front, materials prices in particular escalate late in cyclical expansions.

Lora S. Collins

Sources: U.S. Departments of Commerce and Labor; Federal Reserve Board; The Conference Board.



ECONOMIC ROAD MAPS

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Prices for Quantities of this chart will be supplied on request to Information Service.

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